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TREASURY FOR TFFC AND OFAC

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SUBJECT: UNSCR 1737/IRAN: DUTCH RECEPTIVE TO TREASURY UNDER

SECRETARY LEVEY'S MESSAGE

SIPDIS

Classified By: Economic Counselor Karen Enstrom,
reasons 1.4 (b) and (d)

11. (S) SUMMARY. In meetings March 8 in The Hague, senior GONL officials told visiting Treasury Under Secretary Levey that a nuclear-armed Iran would be unacceptable. While supporting USG aims for a second UN resolution on Iran, these officials stressed the need for practical and non-discriminatory measures. Dutch banks ING and ABN Amro asserted that they are fully compliant with USG regulations, with ABN Amro reporting that it is in the process of eliminating its business with Iran in all currencies. This message has been cleared by U/S Levey. END SUMMARY.

12. (SBU) Treasury Under Secretary for Terrorism and Financial Intelligence Stuart Levey visited the Netherlands March 8 for talks on Iran and UNSCR 1737, specifically to encourage an inclusive reading of the resolution and to discuss with the financial sector the risks of doing business with Iran. The following reports on U/S Levey's discussions with officials from the Dutch Ministries of Foreign Affairs (MFA) and Finance (MOF), as well as the management of Dutch banks ABN Amro and ING. U/S Levey was accompanied to these meetings by Senior Advisor to U/S Levey Amanda Curtis, Senior Analyst Mike Madon, State Department (NEA) Deputy Director for Iranian Affairs Henry Wooster, and Econoff.

Levey's Introductory Message: Iran a Threat

13. (C) U/S Levey told MFA officials he traveled to the Middle East to talk with governments about efforts to financially isolate Iran. Iran was viewed as a real threat in the region, and there was great concern about Iran's pursuit of nuclear weapons, he said. Most in the region also saw UNSCR 1737 and reduced investment in Iran affecting the Iranian elite, leading to questioning of their government's policies and harsher criticism of the Iranian regime in the news. U/S Levey said the USG believed Iran was surprised that the impact from UNSCR 1737 was greater than originally thought.

14. (C) U/S Levey noted the USG remains interested in, and countries have to commit to finding, a peaceful solution.

The USG is trying to increase awareness of Iran's business risks, and U/S Levey noted that many companies are realizing this is not the right time to do business with Iran.

MFA: A Nuclear Iran is Unacceptable

15. (C) Wim Geerts, MFA Deputy Director General for Political Affairs, told U/S Levey that a nuclear Iran was not an option and that a regime that denies the Holocaust cannot be trusted with nuclear weapons. Geerts added that while the Netherlands had changed governments, there would be no softening toward Iran and that he expected the MFA to continue its three track approach. First, he said, is the effort to maintain pressure on Iran concerning its support of terror and violations of human rights, support for UNSCR 1737, and reaching common ground on a new resolution. Second, Geerts advocated dialogue, and noted his pleasure with the USG participation in the Iraq security meeting. Third, the MFA intends to continue efforts to advance Iranian civil society and stimulate media diversity.

16. (S) Responding to Geerts' queries about a second UN Security Council resolution, Wooster said it was important to demystify what the resolution and other diplomatic actions such as financial measures were intended to accomplish, which is to bring the Iranians back to the negotiating table. Thus, the P5 plus 1 package remains on the table.

17. (S) Geerts said the proposed elements of a second resolution are clear and make sense, and the Dutch support efforts at negotiations, citing North Korea as an example where peaceful pressure can work. He said the MFA would support additional sanctions under four conditions: that they are targeted against institutions to really make a difference, and not broadly applied to hurt the Iranian people, and that they are gradual, proportional, and reversible. On specifics, Geerts predicted new Dutch Foreign Minister Maxime Verhagen would concur with the travel ban. He added the Dutch would support the arms sales ban, financial restrictions, if they are specific, and export credit restrictions, if they are applied collectively. On the Islamic Revolutionary Guard Corps (IRGC), Geerts stressed the importance of keeping Russia and China on board and praised U.S. efforts at doing so.

Levey Calls for Broader Reading of UNSCR 1737

18. (C) U/S Levey called on the Dutch to take a fair reading of UNSCR 1737 in two ways. First, he encouraged taking action against the IRGC, whose Chief Commander -- General Safavi -- is designated under the UNSCR. U/S Levey said the EU should take action against companies controlled by the IRGC to give UNSCR 1737 real effect. He provided a list to MFA and MOF officials. U/S Levey encouraged the GONL to see if banks were aware that these organizations were IRGC-controlled. Second, U/S Levey advocated for a greater focus on UNSCR 1737 paragraph 6, which seeks to ensure financial services are not provided to support Iran's nuclear and missile programs. Financial services should be interpreted to include transactions and letters of credit, U/S Levey said, stressing that governments should encourage financial institutions to deny services unless they are sure that the recipient is not aiding Iran's nuclear or missile programs. Furthermore, if any Iranian entity is found trying to acquire WMD items, then all financial support should be withheld from that entity, he added.

19. (C) In response to U/S Levey's call for a fair reading of UNSCR 1737, Geerts outlined recent Dutch and EU efforts. The EU released a Common Position in February, and he expected implementing regulations to be finalized the week of March 12. The Dutch, he added, have already implemented national measures, including financial sanctions and a visa

policy preventing Iranians from studying proliferation-sensitive subjects. MFA official Sitte Noland said starting in summer 2006, the EU began requiring export licenses for products sold to Iran that could be used for the WMD program. If there is any doubt that the product will be used for peaceful purposes, the export license is denied and the products held. To address re-exports and shipments using secondary routes to avoid detection, the GONL works with other transit hubs -- such as those in the UAE and Malaysia -- to share customs information, she added.

¶10. (C) Geerts said he expected Foreign Minister Verhagen to pressure Iran in the area of human rights, starting with Iranian Foreign Minister Mottaki at the next Human Rights Council in Geneva. Verhagen recently extended spending to 15 million euros -- allocated through NGOs -- to support Iranian civil society and alternative media sources, Geerts said. Verhagen will also put Iran high on the agenda when he meets Secretary Rice on April 2, he added.

Dutch on Shell: Keep Playing Field Level

¶11. (C) Geerts told U/S Levey any measures to sanction companies with business ties to Iran should be comprehensive in order to maintain a level playing field. The GONL maintains regular contact with Shell, he added, so the company is informed and considers consequences before making a decision.

MOF asks for Practical Iran Measures

¶12. (C) At a subsequent meeting with Bernard ter Haar, Deputy Treasurer General and Director of the Financial Markets Policy Directorate, U/S Levey said the Wolfsburg Group -- an independent group of major banks advising on financial best practices -- is voluntarily developing THE HAGUE 00000566 003 OF 004 recommendations regarding the use of cover payments. These best practices will include a recommendation that the underlying beneficiary be identified in all transactions. U/S Levey said that banks have found that Iran asks for the underlying data to be stripped off transactions, as a matter of course, and the Wolfsburg initiative is a private-sector effort to increase the transparency of the international financial system and to protect responsible financial institutions. Ter Haar agreed identifying names was important, but said solutions should consider administrative burden and carefully weigh costs and benefits.

¶13. (C) U/S Levey noted that countries should use paragraph 6 of UNSCR 1737 to take action against entities supporting Iran's nuclear or missile programs -- even if they are not listed in the annex. However, the MOF opined that the paragraph was too vague and that a broader interpretation would require governments to provide specific names and identifiers in order to implement. They also suggested that there should be a globally shared definition of broader interpretation. U/S Levey suggested issuing an advisory -- at either the national or EU level -- that encouraged banks to exercise vigilance and to avoid business with questionable entities. U/S Levey said an advisory would be a very powerful message. He noted that avoiding business is a much less aggressive approach than accepting it and freezing assets later.

Export Credit Policy: No Transactions Over 25 Million Euros

¶14. (C) Maarten Masselink, Policy Officer, International Financial Relations Directorate and responsible for export credits, said the GONL has a very restrictive policy on Iran. MOF assesses every Iran-related transaction, and current policy is to refuse transactions over 25 million

euros. In the past, Masselink added, the GONL has provided export credits for harbor dredging equipment, where the Dutch are global leaders, and a cookie factory. U/S Levey welcomed these measures, noting export credits distort the market and that the U.S. is shouldering the burden because it has no business in Iran.

ABN Amro Cuts Off All Business with Iran

¶15. (C) During a meeting with Rijkman Groenink, Chairman of the Managing Board, and ABN Amro's senior compliance officers, Groenink told U/S Levey that ABN Amro is ceasing all business with Iran and will not process U-turn transactions for any Iranian bank. According to Carin Gorter, Senior Vice President Compliance and Legal, ABN Amro has closed all but 16 Iran-related accounts, and that these will be closed in a few months. Groenink said that ABN Amro's policy will exclude Iranian government persons and entities and it deliberately excludes all Iranian people because of the deceptive practices of their regime. He explained their reasoning for cutting off trade in all currencies by noting, there isn't a difference in terms of risk between trade in Dollars and trade in Euros. At some point, you have to make a decision based on your own moral judgement. Regarding UNSCR 1737 implementation, the bank is waiting for guidance from the EU, but has already begun to filter and reject any questionable transactions. According to Gorter, when an Iranian transaction is submitted, the bank reaches out to the local government with jurisdiction over the transaction. If that government gives them permission to freeze, then the money is frozen. If the government does not authorize a freeze, then the transaction is rejected.

¶16. (C) U/S Levey complimented Groenink for ABN Amro's efforts. U/S Levey stressed the importance of financial sector participation in countering proliferation, since -- unlike terrorism finance -- it is more often the case that proliferators use banks to move and store money (since proliferators typically engage in ostensibly legitimate commercial transactions). He added that these bank meetings were consultative, not regulatory, in nature and inquired about the reaction of Dutch customers to denied Iran business. Groenink said it is not difficult to explain, and that the policy also applies to Syria and Sudan, for example. It is a small problem, he added, as customers face exposing their interests in Iran by seeking financial services from ABN Amro.

¶17. (C) Groenink said that the 2005 cease and desist order and fine from U.S. regulators and the Dutch Central Bank was a shock to the system. (NOTE: In 2005, Treasury and the Federal Reserve fined ABN Amro \$80 million for a series of banking violations, including failing to adequately report suspicious transactions and knowingly deleting originator information from Iranian and Libyan transactions bound for the U.S. END NOTE.) This led to large investments in global filtering, information technology, and increasing awareness among employees. As a result of these changes, Groenink said ABN Amro is now fully OFAC compliant worldwide and has adopted a strict policy against cover payments.

¶18. (U) Dutch-founded ABN Amro has 105,000 employees. It is the eighth largest bank in Europe and the thirteenth largest in the world based on total assets.

ING Cuts Off Dollar Business with Iran

¶19. (C) In a separate meeting with ING compliance officers and their general council, U/S Levey said that Iran engages in three categories of deceptive practices. First, Iran uses its state-owned banks to hide its illicit activities. For example, Iran funnels funds through Bank Saderat to Hizbollah and uses Bank Sepah for missile proliferation. Second, Iran

uses front companies to procure items for its nuclear missile programs. Third, Iran uses cover payments to obscure transactions when there is no good, legitimate reason to do so. U/S Levey encouraged ING to carefully evaluate the risk of business with Iran. He pointed out that the reputational risk to the bank is the same, regardless of the currency of the transaction.

¶20. (C) ING's Deputy Chief Risk Officer, Koos Timmermans, told U/S Levey ING opposes cover payments, and thought that a new SWIFT field could address complications such as chain payments that cross international boundaries. He added ING has less than a basis point of business in Iran, there is no retail business, and ING has no branch office in the country. The remaining business is based on contractual obligations with customers having global export operations, he said. ING is also not actively seeking Iran business. He added ING would be reluctant to step into the Iranian market if all other banks were departing, and that ING's compliance department was carefully involved in monitoring the risks of Iran business, including reputational risk. Timmermans said ING had blocked all accounts with Bank Sepah. Jan-Willem Vink, ING General Counsel, said by policy ING allows no dollar transactions, with non-dollar transactions subject to restrictions.

¶21. (U) Dutch origin ING has 120,000 employees and is ranked among the top 20 banks worldwide and top 10 in Europe based on market capitalization.
BLAKEMAN